

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF PERRY	County SHIAWASSEE
Audit Date JUNE 30, 2004	Opinion Date SEPTEMBER 15, 2004	Date Accountant Report Submitted to State: MARCH 17, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

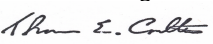
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) YEO & YEO PC, CPA'S			
Street Address 7810 NORTH ALGER	City ALMA	State MI	ZIP 48801
Accountant Signature 			

**CITY OF PERRY**  
**Shiawassee County, Michigan**  
**Annual Financial Statements**  
**and**  
**Auditors' Report**  
**June 30, 2004**

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**City of Perry**  
**List of Council Members**  
**June 30, 2004**

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**City Council**

Stephen Daunt	Mayor
Jean Holley	Mayor Pro-Tem
Thomas Chaput	Council Person
Lisa Cornish	Council Person
Bradley Ford	Council Person
William Morehouse	Council Person
Tom Willson	Council Person

**Administrative Officers**

Jo Ann Velting	Treasurer
Judy Guenther	Clerk

## **Independent Auditors' Report**

To the Honorable Mayor  
and Members of the City Council  
City of Perry  
Perry, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, major funds and the aggregate remaining fund information of the City of Perry as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, major funds, and the aggregate remaining fund information of the City of Perry as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City has implemented a new reporting model as required by the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments* and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2003.

The City has not presented the Management Discussion and Analysis, that the Governmental Accounting Standards Board in its Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments* has determined necessary to supplement, although not required to be part of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2004 on our consideration of the City of Perry's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Perry's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Yeo & Yeo, P.C.*

Alma, Michigan  
September 15, 2004

**City of Perry**  
**Statement of Net Assets**  
**June 30, 2004**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 363,748	\$ 957,599	\$ 1,321,347
Receivables	77,291	77,836	155,127
Internal balances	105,784	(88,791)	16,993
Due from other governmental units	105,335	-	105,335
Prepaid expenditures	18,975	-	18,975
Other assets	-	14,645	14,645
Capital assets (net)	<u>1,488,361</u>	<u>2,836,462</u>	<u>4,324,823</u>
Total assets	<u>2,159,494</u>	<u>3,797,751</u>	<u>5,957,245</u>
<b>Liabilities</b>			
Accounts payable	31,296	14,548	45,844
Accrued and other liabilities	55,587	45,527	101,114
Noncurrent liabilities			
Due within one year	82,134	118,000	200,134
Due in more than one year	<u>1,132,184</u>	<u>705,000</u>	<u>1,837,184</u>
Total liabilities	<u>1,301,201</u>	<u>883,075</u>	<u>2,184,276</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	314,705	2,013,462	2,328,167
Reserved for restricted assets	-	235,243	235,243
Unreserved:			
Designated for capital assets	-	474,142	474,142
Unreserved	<u>543,588</u>	<u>191,829</u>	<u>735,417</u>
Total net assets	<u>\$ 858,293</u>	<u>\$ 2,914,676</u>	<u>\$ 3,772,969</u>



**City of Perry**  
**Statement of Activities**  
**Year Ended June 30, 2004**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
<b>Primary government</b>							
Governmental activities							
Legislative	\$ 30,688	\$ -	\$ -	\$ -	\$ (30,688)	\$ -	\$ (30,688)
General government	316,105	1,988	-	-	(314,117)	-	(314,117)
Public safety	476,104	-	27,509	-	(448,595)	-	(448,595)
Public works	157,475	-	-	-	(157,475)	-	(157,475)
Recreation and culture	97,478	-	6,612	-	(90,866)	-	(90,866)
Other	251,725	-	-	-	(251,725)	-	(251,725)
Interest on long-term debt	48,272	-	-	-	(48,272)	-	(48,272)
Total governmental activities	<u>1,377,847</u>	<u>1,988</u>	<u>34,121</u>	<u>-</u>	<u>(1,341,738)</u>	<u>-</u>	<u>(1,341,738)</u>
Business-type activities							
Sewer	330,100	321,409	-	-	-	(8,691)	(8,691)
Water	286,880	241,609	-	-	-	(45,271)	(45,271)
Total business-type activities	<u>616,980</u>	<u>563,018</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(53,962)</u>	<u>(53,962)</u>
Total primary government	<u>\$ 1,994,827</u>	<u>\$ 565,006</u>	<u>\$ 34,121</u>	<u>\$ -</u>	<u>(1,341,738)</u>	<u>(53,962)</u>	<u>(1,395,700)</u>
General revenues							
Property taxes					617,850	-	617,850
Special assessments					77,291	-	77,291
State shared revenue					352,773	-	352,773
Unrestricted investment earnings					191,246	30,844	222,090
Franchise fees					25,149	-	25,149
Miscellaneous					114,380	-	114,380
Total general revenues and transfers					<u>1,378,689</u>	<u>30,844</u>	<u>1,409,533</u>
Change in net assets					36,951	(23,118)	13,833
Net assets - beginning					<u>821,342</u>	<u>2,937,794</u>	<u>3,759,136</u>
Net assets - ending					<u>\$ 858,293</u>	<u>\$ 2,914,676</u>	<u>\$ 3,772,969</u>

See Accompanying Notes to Financial Statements

**City of Perry**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2004**

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Cash and cash equivalents	\$ 78,941	\$ 29,122	\$ 72,396	\$ 61,609	\$ 242,068
Receivables	77,291	-	-	-	77,291
Due from other funds	105,170	-	-	-	105,170
Due from other governments	72,361	23,479	9,495	-	105,335
Prepaid expenditures	<u>18,975</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,975</u>
Total assets	<u>\$ 352,738</u>	<u>\$ 52,601</u>	<u>\$ 81,891</u>	<u>\$ 61,609</u>	<u>\$ 548,839</u>
<b>Liabilities and Fund Balance</b>					
Liabilities					
Accounts payable	\$ 12,110	\$ -	\$ 14,910	\$ 1,647	\$ 28,667
Accrued wages	20,544	1,865	1,965	2,974	27,348
Deferred revenue	<u>77,291</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>77,291</u>
Total liabilities	<u>109,945</u>	<u>1,865</u>	<u>16,875</u>	<u>4,621</u>	<u>133,306</u>
Fund Balance					
Unreserved					
Other undesignated	<u>242,793</u>	<u>50,736</u>	<u>65,016</u>	<u>56,988</u>	<u>415,533</u>
Total fund balance	<u>242,793</u>	<u>50,736</u>	<u>65,016</u>	<u>56,988</u>	<u>415,533</u>
Total liabilities and fund balance	<u>\$ 352,738</u>	<u>\$ 52,601</u>	<u>\$ 81,891</u>	<u>\$ 61,609</u>	<u>\$ 548,839</u>

**City of Perry**  
**Reconciliation of the Balance Sheet**  
**Governmental Funds to the Statement of Net Assets**  
**June 30, 2004**

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<b>Total fund balances for governmental funds</b>		\$ 415,533
Total net assets reported for governmental activities in the statement of net assets is different because:		
Deferred special assessments		77,291
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,288,538
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances as of June 30, 2004 are as follows:		
Bonds payable	(1,173,656)	
Accrued interest payable	(27,930)	
Compensated absences payable	<u>(40,662)</u>	(1,242,248)
Internal service funds are used by management to charge the cost of equipment to individual funds. Certain assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.		<u>319,179</u>
<b>Net assets of governmental activities</b>		<b><u>\$ 858,293</u></b>

See Accompanying Notes to Financial Statements

**City of Perry**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2004**

	General	Major Street	Local Street	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes and penalties	\$ 617,850	\$ -	\$ -	\$ -	\$ 617,850
Licenses and permits	25,149	-	-	-	25,149
State grants	222,227	92,979	37,567	6,612	359,385
Federal grants	27,509	-	-	-	27,509
Charges for services	1,988	-	-	-	1,988
Fines and forfeitures	13,236	-	-	881	14,117
Interest and rentals	125,079	280	422	65,003	190,784
Other revenue	71,855	-	-	28,408	100,263
Total revenues	<u>1,104,893</u>	<u>93,259</u>	<u>37,989</u>	<u>100,904</u>	<u>1,337,045</u>
<b>Expenditures</b>					
Current					
Legislative	30,688	-	-	-	30,688
General government	283,039	-	-	-	283,039
Public safety	468,875	-	-	3,847	472,722
Public works	218,304	78,233	74,253	3,012	373,802
Recreation and culture	7,454	-	-	92,720	100,174
Capital outlay	182,027	52,754	14,485	2,459	251,725
Debt service	65,980	-	-	54,800	120,780
Total expenditures	<u>1,256,367</u>	<u>130,987</u>	<u>88,738</u>	<u>156,838</u>	<u>1,632,930</u>
Excess of revenues over expenditures	<u>(151,474)</u>	<u>(37,728)</u>	<u>(50,749)</u>	<u>(55,934)</u>	<u>(295,885)</u>
<b>Other financing sources (uses)</b>					
Loan proceeds	215,000	-	-	-	215,000
Transfers in	-	-	22,000	52,000	74,000
Transfers out	(52,000)	(22,000)	-	-	(74,000)
Total other financing sources and uses	<u>163,000</u>	<u>(22,000)</u>	<u>22,000</u>	<u>52,000</u>	<u>215,000</u>
Net change in fund balance	<u>11,526</u>	<u>(59,728)</u>	<u>(28,749)</u>	<u>(3,934)</u>	<u>(80,885)</u>
Fund balance - beginning	<u>231,267</u>	<u>110,464</u>	<u>93,765</u>	<u>60,922</u>	<u>496,418</u>
Fund balance - ending	<u>\$ 242,793</u>	<u>\$ 50,736</u>	<u>\$ 65,016</u>	<u>\$ 56,988</u>	<u>\$ 415,533</u>

**City of Perry**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of**  
**Governmental Funds to the Statement of Activities**  
**Year Ended June 30, 2004**

		Primary Government
<b>Net change in fund balances - total governmental funds</b>		\$ (80,885)
Total change in net assets reported for governmental activities in the statement of activities is different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Depreciation expense	\$ (49,361)	
Capital outlay	<u>233,313</u>	183,952
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		
New special assessments	86,736	
Current collection of special assessments	<u>(9,445)</u>	77,291
Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.		
Debt issued	(215,000)	
Repayments of long-term debt	<u>58,096</u>	(156,904)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in compensated absences payable	10,539	
Change in accrued interest on bonds	<u>3,873</u>	14,412
Internal service funds are used by management to charge the cost of equipment to individual funds. Certain net revenue (expense) of internal service funds are included in governmental activities in the statement of activities		<u>(915)</u>
<b>Change in net assets of governmental activities</b>		<b><u>\$ 36,951</u></b>

See Accompanying Notes to Financial Statements

**City of Perry**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2004**

	Business-type Activities - Enterprise Funds			Internal Service Funds		
	Sewer	Water	Total	Motor Pool	Office Equipment Pool	Total
<b>Assets</b>						
Current assets						
Cash and cash equivalents	\$ 595,433	\$ 105,054	\$ 700,487	\$ 105,700	\$ 15,980	\$ 121,680
Receivables	31,428	23,498	54,926	-	-	-
Special assessments receivable - current	11,455	-	11,455	-	-	-
Due from other funds	81,823	-	81,823	-	-	-
Total current assets	720,139	128,552	848,691	105,700	15,980	121,680
Noncurrent assets						
Special assessments receivable - net of current portion	11,455	-	11,455	-	-	-
Capital assets	3,121,135	1,548,461	4,669,596	425,629	60,673	486,302
Less: accumulated depreciation	(1,278,998)	(554,136)	(1,833,134)	(244,600)	(41,879)	(286,479)
Net property, plant and equipment	1,842,137	994,325	2,836,462	181,029	18,794	199,823
Restricted assets						
Cash and cash equivalents	198,085	59,027	257,112	-	-	-
Other assets						
Unamortized bond discounts and financing costs	11,495	3,150	14,645	-	-	-
Total assets	2,783,311	1,185,054	3,968,365	286,729	34,774	321,503
<b>Liabilities</b>						
Current liabilities						
Accounts payable	1,463	13,085	14,548	2,479	150	2,629
Accrued wages and related liabilities	13,139	12,915	26,054	309	-	309
Due to other funds	-	170,000	170,000	-	-	-
Current portion of noncurrent liabilities	85,000	33,000	118,000	-	-	-
Accrued interest payable	3,567	7,622	11,189	-	-	-
Customer deposits payable	-	8,284	8,284	-	-	-
Total current liabilities	103,169	244,906	348,075	2,788	150	2,938
Noncurrent liabilities						
Bonds, notes and loans payable	175,000	530,000	705,000	-	-	-
Total liabilities	278,169	774,906	1,053,075	2,788	150	2,938
<b>Net Assets</b>						
Invested in capital assets, net of related debt	1,582,137	431,325	2,013,462	181,029	18,794	199,823
Reserved for restricted assets	185,643	49,600	235,243	-	-	-
Restricted for:						
Designated for capital assets	432,642	41,500	474,142	-	-	-
Other unrestricted	304,720	(112,277)	192,443	102,912	15,830	118,742
Total net assets	\$ 2,505,142	\$ 410,148	2,915,290	\$ 283,941	\$ 34,624	\$ 318,565

Some amounts reported for business-type activities in the statement of net assets are different because certain internal service funds assets and liabilities are reported with business-type activities

(614)

Net assets of business-type activities

\$ 2,914,676



**City of Perry**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**Year Ended June 30, 2004**

	Business-type Activities - Enterprise Funds			Internal Service Funds		
	Sewer	Water	Total	Motor Pool	Office Equipment Pool	Total
<b>Operating revenues</b>						
Charges for service	\$ 296,130	\$ 225,489	\$ 521,619	\$ 94,105	\$ 29,550	\$ 123,655
Connection and tap charges	19,013	10,197	29,210	-	-	-
Penalties	6,266	5,923	12,189	-	-	-
Other reimbursements	-	-	-	9,397	-	9,397
Total operating revenues	<u>321,409</u>	<u>241,609</u>	<u>563,018</u>	<u>103,502</u>	<u>29,550</u>	<u>133,052</u>
<b>Operating expenses</b>						
Salaries and wages	90,023	80,020	170,043	9,319	-	9,319
Fringe benefits	26,383	23,634	50,017	5,792	-	5,792
Supplies	6,592	15,149	21,741	17,034	550	17,584
Other services and charges	114,859	106,321	221,180	-	-	-
Repairs and maintenance	-	-	-	42,437	12,477	54,914
Depreciation	71,729	31,430	103,159	40,303	7,134	47,437
Total operating expenses	<u>309,586</u>	<u>256,554</u>	<u>566,140</u>	<u>114,885</u>	<u>20,161</u>	<u>135,046</u>
Operating income (loss)	<u>11,823</u>	<u>(14,945)</u>	<u>(3,122)</u>	<u>(11,383)</u>	<u>9,389</u>	<u>(1,994)</u>
<b>Nonoperating revenues (expenses)</b>						
Interest and investment revenue	6,063	24,781	30,844	379	86	465
Interest expense	(20,421)	(29,805)	(50,226)	-	-	-
Total nonoperating revenues (expenses)	<u>(14,358)</u>	<u>(5,024)</u>	<u>(19,382)</u>	<u>379</u>	<u>86</u>	<u>465</u>
Change in net assets	(2,535)	(19,969)	(22,504)	(11,004)	9,475	(1,529)
Net assets - beginning	<u>2,507,677</u>	<u>430,117</u>	<u>2,937,794</u>	<u>294,945</u>	<u>25,149</u>	<u>320,094</u>
Net assets - ending	<u>\$ 2,505,142</u>	<u>\$ 410,148</u>	<u>2,915,290</u>	<u>\$ 283,941</u>	<u>\$ 34,624</u>	<u>\$ 318,565</u>

Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities

(614)

Change in net assets of business-type activities

\$ 2,914,676

See Accompanying Notes to Financial Statements

**City of Perry**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2004**

	Business-type Activities - Enterprise Funds			Internal Service Funds		
	Sewer	Water	Total	Motor Pool	Office Equipment Pool	Total
<b>Cash flows from operating activities</b>						
Receipts from customers	\$ 321,561	\$ 240,894	\$ 562,455	\$ 103,502	\$ 29,550	\$ 133,052
Payments to suppliers	(5,129)	(85,402)	(90,531)	(16,007)	(399)	(16,406)
Payments to employees	(109,618)	(94,639)	(204,257)	(15,067)	-	(15,067)
Other receipts (payments)	(187,646)	63,164	(124,482)	(42,437)	(12,477)	(54,914)
Net cash provided by operating activities	<u>19,168</u>	<u>124,017</u>	<u>143,185</u>	<u>29,991</u>	<u>16,674</u>	<u>46,665</u>
<b>Cash flows from capital and related financing activities</b>						
Proceeds from special assessments	18,110	-	18,110	-	-	-
Purchases of capital assets	(56,100)	(99,213)	(155,313)	(6,568)	(4,505)	(11,073)
Retirement of debt	(115,000)	(33,000)	(148,000)	-	-	-
Interest and fiscal charges paid	(17,646)	(29,103)	(46,749)	-	-	-
Net cash used for capital and related financing activities	<u>(170,636)</u>	<u>(161,316)</u>	<u>(331,952)</u>	<u>(6,568)</u>	<u>(4,505)</u>	<u>(11,073)</u>
<b>Cash flows from investing activities</b>						
Interest revenue	<u>6,063</u>	<u>24,781</u>	<u>30,844</u>	<u>379</u>	<u>86</u>	<u>465</u>
Net increase (decrease) in cash and cash equivalents	(145,405)	(12,518)	(157,923)	23,802	12,255	36,057
Cash and cash equivalents - beginning of year	<u>938,923</u>	<u>176,599</u>	<u>1,115,522</u>	<u>81,898</u>	<u>3,725</u>	<u>85,623</u>
Cash and cash equivalents - end of year	<u>\$ 793,518</u>	<u>\$ 164,081</u>	<u>\$ 957,599</u>	<u>\$ 105,700</u>	<u>\$ 15,980</u>	<u>\$ 121,680</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>						
Operating income (loss)	\$ 11,823	\$ (14,945)	\$ (3,122)	\$ (11,383)	9,389	\$ (1,994)
Adjustments to reconcile operating income to net cash provided by operating activities						
Depreciation expense	71,729	31,430	103,159	40,303	7,134	47,437
Change in assets and liabilities						
Receivables	152	(1,765)	(1,613)	-	-	-
Due from other funds	(70,000)	-	(70,000)	-	-	-
Accounts payable	1,463	(70,253)	(68,790)	1,027	151	1,178
Wages payable	6,788	9,015	15,803	44	-	44
Accrued interest payable	(2,787)	(515)	(3,302)	-	-	-
Customer deposits payable	-	1,050	1,050	-	-	-
Due to other funds	-	170,000	170,000	-	-	-
Net cash provided by operating activities	<u>\$ 19,168</u>	<u>\$ 124,017</u>	<u>\$ 143,185</u>	<u>\$ 29,991</u>	<u>\$ 16,674</u>	<u>\$ 46,665</u>

See Accompanying Notes to Financial Statements



**City of Perry**  
**Statement of Fiduciary Assets and Liabilities**  
**June 30, 2004**

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	<u>Agency Funds</u>
<b>Assets</b>	
Cash	\$ 9,025
Due from other funds	<u>12,086</u>
Total assets	<u>\$ 21,111</u>
<b>Liabilities</b>	
Due to other funds	\$ 17,117
Due to other governmental units	<u>3,994</u>
Total liabilities	<u>\$ 21,111</u>

**City of Perry**  
**Notes to Financial Statements**  
**June 30, 2004**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Perry conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

**Government-wide and fund financial statements**

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, normally supported by taxes and inter-governmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenue are reported as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major enterprise funds are reported in separate columns in the fund financial statements.

**Reporting Entity**

The financial reporting entity of the City of Perry includes all funds and accounts of the City.

The City has considered all potential component units in evaluating how to define the City for financial reporting purposes. The decision to include the component units in the reporting entity was made by applying the criteria set forth in Statement 14 of the Governmental Accounting Standards Board (GASB), *The Financial Reporting Entity* as well as the *Statement of Michigan Governmental Accounting and Auditing No. 5*, which defines the reporting of primary government and component unit activities. The basic criterion for including a governmental department, agency, institution, commission, public authority or other governmental organization in a governmental unit's general purpose financial statements is the exercise of financial responsibility over such agencies by the governmental unit's elected officials, the selection of the governing authority, the designation of management, and the ability to exercise significant influence over operations.

**City of Perry**  
**Notes to Financial Statements**  
**June 30, 2004**

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**Blended Component Unit**

A blended component unit is a legally separate entity from the City, but is so intertwined with the City that it is in substance the same as the City. It is reported as part of the City and blended into the appropriate funds.

*Building Authority* – The Perry Area Building Authority exists and operates for the purpose of owning, equipping, operating and maintenance of property leased by the City of Perry. For the Authority's year ended December 31, 2003, the City made lease payments amounting to \$ 59,500 for occupancy of facilities owned by the Authority. Subsequent to the Authority's year end, the City has made additional lease payments through June 30, 2004 amounting to \$ 36,200. The board members of the Authority are appointed by City Council. Since the Perry Building Authority exists and operates for the sole benefit of the City of Perry, its financial records are included as a blended component in the general purpose financial statements of the City.

**Joint Venture**

*Fire Rescue* – The Perry Area Fire Rescue is operated as a joint venture with the Township of Perry, County of Shiawassee. For the Fire Board's fiscal year ended March 31, 2004, the City agreed to provide approximately \$ 58,523 for the operation of the department. The organizational agreement provides for a joint exercise of power and the establishment of a separate administrative entity. Members of the Perry Area Fire Board are selected by the City Council and the Perry Township Board with other members selected by other units of government who have contracted with the Fire Board for fire protection. The fund balance of Perry Area Fire Rescue at March 31, 2004 was \$ 29,327. The City has a 50% equity claim to Fire Board property and equipment upon liquidation.

Copies of the Perry Building Authority and the Perry Area Fire Rescue financial statements can be obtained by writing:

Ms. Jo Ann Velting  
City Treasurer  
City of Perry  
203 W. Polly  
Perry, Michigan 48872

**Measurement focus, basis of accounting and financial statement presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

**City of Perry**  
**Notes to Financial Statements**  
**June 30, 2004**

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Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Those revenues susceptible to accrual are property taxes, special assessments, licenses, interest revenue, and charges for services. Sales taxes collected and held by the State at year end on behalf of the government also are recognized as revenue. Fines, permits, and parking meter revenues are not susceptible to accrual because generally they are not measurable until received in cash.

The City reports the following major governmental funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major and Local Street Funds account for the resources of state gas and weight tax revenue that are restricted for use on Major and Local Streets.

The City reports the following Major Proprietary Funds:

- The Sewer Fund accounts for the cost of collection and treating waste waters.
- The Water Fund accounts for the costs of providing water services to City residents.

Additionally, the City reports the following:

*Special Revenue Funds* – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

*Internal Service Funds* – The Internal Service Fund accounts for the financing of goods or services by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis.

*Agency Funds* – The Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

**City of Perry**  
**Notes to Financial Statements**  
**June 30, 2004**

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As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds, relate to charges to customers for water sales and services and sewage disposal charges. The Water and Sewer Fund also recognizes tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Connection fees intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of water, sewage disposal, operations and maintenance, general and administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Property tax revenue**

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2003 ad valorem tax is levied and collectible on July 1, 2003, and is recognized as revenue in the year ended June 30, 2004, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2003 taxable valuation of the City of Perry is \$ 39,678,610 on which ad valorem taxes levy consisted of 14.8036 mills for operating purposes.

#### **Assets, liabilities and net assets or equity**

*Cash and investments* – The City has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of 3 months or less when acquired.

*Receivables and payable* – In general, outstanding balances between funds are reported as “due to/from other fund.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

*Prepaid items* - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**City of Perry**  
**Notes to Financial Statements**  
**June 30, 2004**

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*Restricted assets* – Certain revenue bonds of the enterprise funds require amounts to be set aside for a bond reserve. These amounts have been classified as restricted investments.

*Capital assets* – Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The City began recording governmental infrastructure constructed on or after July 1, 2003 as allowed by GASB 34.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives.

Land improvements	10 to 20 years
Building and building improvements	25 to 40 years
Utility systems	25 to 40 years
Roads	25 years
Other infrastructure	20 to 40 years
Vehicles	5 to 10 years
Machinery and equipment	5 to 10 years

*Compensated absences* – Full-time employees receive 48 hours of sick leave time after completing six months of employment. Thereafter, sick leave time accumulates eight hours per month with a maximum accumulation of 960 hours. Full-time employees who have accumulated their full 960 hours will be paid for half of the unused earned sick leave time for the year on the first pay of December of each year. The balance will be lost due to accumulation. The City will also pay one-third of accumulated sick leave time upon retirement or death. Other reasons for termination will not be reimbursed for accumulated sick leave. Full-time employees earn vacation time at the following rate: 40 hours after one year of service, 80 hours after two years of service, 120 hours after five years of service, 160 hours after fifteen years of service, and 200 hours after twenty years of service. If vacation time is not used during the year, employees may carry over up to 40 hours to the next year. Any remaining unused vacation time will be paid at the employee's normal rate of pay in the first pay period following their anniversary date. Upon termination, employees will be paid accumulated vacation time. All vacation pay and one third sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for terminations as of year end.

*Long-term obligations* - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

*Fund equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**City of Perry**  
**Notes to Financial Statements**  
**June 30, 2004**

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**Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**Comparative data**

Comparative data is not included in the City's financial statements.

**NOTE 2 - DEPOSITS**

Michigan Compiled Laws, Section 129.91 authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City of Perry's deposits and investment policy are in accordance with statutory authority.

**Deposits**

At year end, the carrying amount of the City's deposits with financial institutions including \$ 280 of petty cash was \$ 1,330,372 and the bank balance was \$ 1,326,560. Of the bank balance, \$ 156,752 was covered by federal depository insurance and \$ 1,169,808 was uninsured and uncollateralized.

**NOTE 3 - RECEIVABLES**

Receivables as of year end for the government's individual major and nonmajor funds, and the internal service and fiduciary funds in the aggregate are as follows:

	<u>General</u>	<u>Sewer</u>	<u>Water</u>	<u>Nonmajor</u>	<u>Total</u>
Accounts	\$ -	\$ 31,428	\$ 23,498	\$ -	\$ 54,926
Special assessments	77,291	22,910	-	-	100,201
Intergovernmental	<u>72,361</u>	<u>-</u>	<u>-</u>	<u>32,974</u>	<u>105,335</u>
Gross receivables	<u>\$ 149,652</u>	<u>\$ 54,338</u>	<u>\$ 23,498</u>	<u>\$ 32,974</u>	<u>\$ 260,462</u>
Due within one year	\$ 18,900	\$ 42,883	\$ 23,498	\$ 32,974	\$ 118,255
Due after one year	<u>130,752</u>	<u>11,455</u>	<u>-</u>	<u>-</u>	<u>142,207</u>
	<u>\$ 149,652</u>	<u>\$ 54,338</u>	<u>\$ 23,498</u>	<u>\$ 32,974</u>	<u>\$ 260,462</u>

**City of Perry**  
**Notes to Financial Statements**  
**June 30, 2004**

**NOTE 4 – CAPITAL ASSETS**

Capital assets activity of the primary government for the current year was as follows:

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 33,869	\$ -	\$ -	\$ 33,869
Capital assets being depreciated				
Buildings	1,098,160	3,892	-	1,102,052
Office equipment	163,383	7,119	-	170,502
Public works equipment	38,750	1,935	-	40,685
Police equipment	19,289	-	-	19,289
Park equipment	11,004	3,300	-	14,304
Motor pool equipment	419,060	6,568	-	425,628
Major street equipment	38,000	-	-	38,000
Construction in progress	117,377	-	117,377	-
Streetscape project	-	338,948	-	338,948
Library collection	196,425	-	-	196,425
Capital assets being depreciated	<u>2,101,448</u>	<u>361,762</u>	<u>117,377</u>	<u>2,345,833</u>
Less accumulated deprecation for				
Buildings	184,565	28,267	-	212,832
Office equipment	137,017	6,701	-	143,718
Public works equipment	38,750	184	-	38,934
Police equipment	18,763	526	-	19,289
Park equipment	7,159	165	-	7,324
Motor pool equipment	243,943	657	-	244,600
Major street equipment	14,250	3,800	-	18,050
Streetscape project	-	10,169	-	10,169
Library collection	196,425	-	-	196,425
Accumulated depreciation	<u>840,872</u>	<u>50,469</u>	<u>-</u>	<u>891,341</u>
Net capital assets being depreciated	<u>1,260,576</u>	<u>311,293</u>	<u>117,377</u>	<u>1,454,492</u>
Governmental activities capital assets, net	<u>\$ 1,294,445</u>	<u>\$ 311,293</u>	<u>\$ 117,377</u>	<u>\$ 1,488,361</u>



**City of Perry**  
**Notes to Financial Statements**  
**June 30, 2004**

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 119,362	\$ -	\$ -	\$ 119,362
Capital assets being depreciated				
Mains, wells, collection and treatment facilities	4,205,062	99,212	-	4,304,274
Machinery and equipment	146,875	56,100	-	202,975
Office furniture and equipment	42,985	-	-	42,985
Capital assets being depreciated	4,394,922	155,312	-	4,550,234
Less accumulated depreciation for				
Mains, wells, collection and treatment facilities	1,617,143	94,509	-	1,711,652
Machinery and equipment	69,946	8,550	-	78,496
Office furniture and equipment	42,986	-	-	42,986
Accumulated depreciation	1,730,075	103,059	-	1,833,134
Net capital assets being depreciated	2,664,847	52,253	-	2,717,100
Business-type capital assets, net	<u>\$ 2,784,209</u>	<u>\$ 52,253</u>	<u>\$ -</u>	<u>\$ 2,836,462</u>

Depreciation expense was charged to programs of the primary government as follows:

Government activities	
General government	\$ 44,437
Public safety	526
Public works	4,902
Recreation and culture	<u>604</u>
Total governmental activities	<u>\$ 50,469</u>
Business-type activities	
Water	\$ 31,430
Sewer	<u>71,729</u>
Total business-type activities	<u>\$ 103,159</u>

**City of Perry**  
**Notes to Financial Statements**  
**June 30, 2004**

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**NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances is as follows:

**Due to/from other funds:**

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Tax Collection Fund	\$ 5,170	Final allocation of tax receipts yet to be distributed
	Water Fund	100,000	Reimbursement of expenditures paid for by the General Fund
Sewer Fund	Tax Collection Fund	11,823	Final allocation of tax receipts yet to be distributed
	Water Fund	70,000	Reimbursement of expenditures paid for by the Sewer Fund
		<u>\$ 186,993</u>	

**Interfund transfers:**

	Transfers in	Transfers out	Purpose
<b>General Fund</b>			
To Library Fund	\$ -	\$ 52,000	To provide for current year operating costs in excess of revenues.
<b>Library Fund</b>			
From General Fund	52,000	-	To provide for current year operating costs in excess of revenues.
<b>Major Street Fund</b>			
To Local Street Fund	-	22,000	To provide for current year operating costs in excess of revenues.
<b>Local Street Fund</b>			
From Major Street Fund	<u>22,000</u>	<u>-</u>	To provide for current year operating costs in excess of revenues.
Total	<u>\$ 74,000</u>	<u>\$ 74,000</u>	

**NOTE 6 - LONG-TERM DEBT**

The City issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction.

**City of Perry**  
**Notes to Financial Statements**  
**June 30, 2004**

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Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
Special assessment bonds					
1998 Shiawassee County Drain Co.	\$ 248,752	\$ -	\$ 19,149	\$ 229,603	\$ 19,149
Building Authority Bonds	768,000	-	17,000	751,000	18,000
Chemical Bank Note	-	215,000	21,947	193,053	44,985
Compensated absences	51,201	-	10,539	40,662	-
	<u>\$ 1,067,953</u>	<u>\$ 215,000</u>	<u>\$ 68,635</u>	<u>\$ 1,214,318</u>	<u>\$ 82,134</u>
<b>Business-type activities</b>					
Revenue bonds					
1971 Sewage Disposal	65,000	-	50,000	15,000	15,000
1982 Water System	415,000	-	15,000	400,000	15,000
1983 Water System	95,000	-	5,000	90,000	5,000
1989 Wastewater Treatment	65,000	-	30,000	35,000	35,000
1989 Wastewater Treatment	245,000	-	35,000	210,000	35,000
1999 Water System	86,000	-	13,000	73,000	13,000
	<u>\$ 971,000</u>	<u>\$ -</u>	<u>\$ 148,000</u>	<u>\$ 823,000</u>	<u>\$ 118,000</u>

The following is a summary of maturity dates, interest rates, and maturities:

	Maturity Dates	Interest Rates	Maturities
<b>Governmental activities</b>			
Special assessment bonds			
1998 Shiawassee County Drain Co.	10/1/15	5%	\$19,130-\$19,149
Building Authority Bonds	2/1/27	5%	\$14,000-\$53,000
Chemical Bank Note	9/5/08	3.34%	\$3,871-\$25,043
<b>Business-type activities</b>			
Revenue bonds			
1971 Sewage Disposal	1/1/05	8%	\$15,000-\$50,000
1982 Water System	10/1/21	5%	\$10,000-\$30,000
1983 Water System	10/1/21	5%	\$1,000-\$5000
1989 Wastewater Treatment	11/1/04	6.1%-7.35%	\$15,000-\$35,000
1989 Wastewater Treatment	5/1/09	6.5%-7.25%	\$15,000-\$50,000
1999 Water System	2/1/09	4.875%-4.95%	\$10,000-\$16,000

**City of Perry**  
**Notes to Financial Statements**  
**June 30, 2004**

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Annual debt service requirements to maturity for the above bond obligations are as follows:

Year Ended June 30	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 82,134	\$ 57,046	\$ 118,000	\$ 40,758
2006	84,633	53,678	74,000	33,580
2007	87,179	50,155	75,000	30,000
2008	89,795	46,576	80,000	26,230
2009	45,000	43,113	91,000	22,134
2010-2014	223,650	178,486	135,000	83,500
2015-2019	202,265	114,785	150,000	47,500
2020-2024	207,000	64,875	100,000	9,750
2025-2027	<u>152,000</u>	<u>11,650</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,173,656</u>	<u>\$ 620,364</u>	<u>\$ 823,000</u>	<u>\$ 293,450</u>

**NOTE 7 - RISK MANAGEMENT**

The City is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages risk through the purchase of commercial insurance. Settled claims for commercial insurance have not materially exceeded the amount of insurance coverage in any of the past three fiscal years.

Liability, vehicle, physical damage, property and crime - The City is a member of the Michigan Municipal Liability and Property Pool which is an association organized to purchase commercial insurance for protection against loss for Michigan cities, counties, townships and special service governments. The City is insured up to an aggregate of \$ 5,000,000. Coverage is subject to deductibles ranging from \$ 250 to \$ 500. The City is not subject to supplemental premium assessments by the association.

Workers' compensation - The City purchases coverage through the Michigan Municipal Workers' Compensation Fund. The fund is authorized by State law to provide its members coverage required by the Workers' Disability Compensation Act. Claims are subject to a maximum limit of \$ 500,000 per occurrence.

**NOTE 8 - PENSION PLAN**

The City of Perry, Michigan, Employees' Retirement Plan is a IRC Section 401(a) defined contribution plan which is available to all City employees regularly scheduled to work more than 24 hours per week. The Plan Administrator is The Variable Annuity Life Insurance Company, An American General Company. The Plan provides that the City must contribute 5% of each participant's compensation and each participant must contribute 2.5% of compensation to the plan.

Normal retirement is age 60 or 5 years of participation in the plan, whichever is later.

**City of Perry**  
**Notes to Financial Statements**  
**June 30, 2004**

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Vesting occurs as follows:

<u>Years of Service</u>	<u>Vesting Percentage</u>
Less than 3	0 %
3 but less than 4	20
4 but less than 5	40
5 but less than 6	60
6 but less than 7	80
7 or more	100

Years of service for vesting include all years of service (not only years of plan participation).

Employee and employer contributions were \$ 15,105 and \$ 30,209, respectively for the period ended June 30, 2004.

**NOTE 9 - FUND EQUITY / RETAINED EARNINGS RESERVATIONS AND DESIGNATIONS**

At June 30, the following portions of the fund equity were reserved or designated in the following funds:

Enterprise Funds	
Sewer bond reserves	\$ 185,643
Water bond reserves	<u>49,600</u>
Total for enterprise funds	<u>\$ 235,243</u>

**NOTE 10 - POST-EMPLOYMENT BENEFITS**

The City provides post-employment health insurance benefits to Qualified Retired Employees through age 65, at which time the City provides supplemental insurance coverage to Medicare. The cost of these benefits is paid by the City and is funded on a pay-as-you-go basis. The City's cost of providing the health insurance benefits to retirees for 2004 was approximately \$ 10,600. There were three participants at June 30, 2004.

In addition, the City provides post-employment health insurance benefits to the extent mandated by the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The requirements established by COBRA are fully funded by former employees who elect coverage under the Act, and no direct costs are incurred by the City.

**City of Perry**  
**Notes to Financial Statements**  
**June 30, 2004**

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**NOTE 11 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The approved budgets of the City were adopted at an activity level. During the period ended June 30, 2004, the City incurred expenditures in certain budgetary funds, which were in excess of the amounts appropriated .

<u>Fund</u>	<u>Total Appropriation</u>	<u>Amount Expended</u>	<u>Unfavorable Variance</u>
General Fund			
Public safety	417,321	468,875	51,554
Public works	211,691	218,304	6,613
Local Street Fund			
Capital outlay	5,000	14,485	9,485

**NOTE 12 - CONTINGENCIES**

The City has received grants and assistance from various sources for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under the terms of the grants and aid agreements, the City believes any resulting adjustments would be immaterial.

**NOTE 13 – ACCOUNTING AND REPORTING CHANGE**

**GASB 34**

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements – For State and Local Governments*. The City of Perry has applied the provisions of this statement and related GASB statements in the accompanying financial statements (including the notes to financial statements). The City has elected to implement the general provisions of the statement. Certain significant changes in the statement include the following:

- Financial statements prepared using full accrual accounting for all of the City's activities .
- A change in the fund financial statements to focus on the major funds.
- Capital assets at July 1, 2003 previously reported in the General Fixed Assets Account Group have been decreased by approximately \$316,780 to \$1,294,445 to reflect the historical cost and accumulated depreciation of the City's capital assets at that date.

The governmental activities column includes bonds and other long-term obligations totaling \$1,065,402 previously reported in the General Long-Term Debt Account Group.

**City of Perry**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended June 30, 2004**

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes and penalties	\$ 641,327	\$ 641,327	\$ 617,850	\$ (23,477)
Licenses and permits	24,200	24,200	25,149	949
State grants	239,000	239,000	222,227	(16,773)
Federal grants	25,777	25,777	27,509	1,732
Charges for services	2,550	2,550	1,988	(562)
Fines and forfeitures	11,000	11,000	13,236	2,236
Interest and rentals	125,162	125,162	125,079	(83)
Other revenue	50,090	50,090	71,855	21,765
Total revenues	1,119,106	1,119,106	1,104,893	(14,213)
<b>Expenditures</b>				
Current				
Legislative	22,369	30,869	30,688	(181)
General government	278,020	286,020	283,039	(2,981)
Public safety	417,321	417,321	468,875	51,554
Public works	390,730	211,691	218,304	6,613
Recreation and culture	14,900	14,900	7,454	(7,446)
Capital outlay	11,100	204,739	182,027	(22,712)
Debt service	95,181	95,181	65,980	(29,201)
Total expenditures	1,229,621	1,260,721	1,256,367	(4,354)
Excess (deficiency) of revenues over expenditures	(110,515)	(141,615)	(151,474)	(9,859)
<b>Other financing sources (uses)</b>				
Loan proceeds	215,000	215,000	215,000	-
Transfers out	(52,000)	(52,000)	(52,000)	-
Net change in fund balance	52,485	21,385	11,526	(9,859)
Fund balance - beginning	231,267	231,267	231,267	-
Fund balance - ending	\$ 283,752	\$ 252,652	\$ 242,793	\$ (9,859)

**City of Perry**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Major Street Fund**  
**Year Ended June 30, 2004**

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
Intergovernmental - State	\$ 92,383	\$ 92,383	\$ 92,979	\$ 596
Interest and rents	2,100	2,100	280	(1,820)
Total revenues	94,483	94,483	93,259	(1,224)
<b>Expenditures</b>				
Public works	94,477	94,477	78,233	(16,244)
Capital outlay	3,500	71,500	52,754	(18,746)
Total expenditures	97,977	165,977	130,987	(34,990)
Excess (deficiency) of revenues over expenditures	(3,494)	(71,494)	(37,728)	33,766
<b>Other financing uses</b>				
Operating transfers out	(22,000)	(22,000)	(22,000)	-
Net change in fund balance	(25,494)	(93,494)	(59,728)	33,766
Fund balance - beginning	110,464	110,464	110,464	-
Fund balance - ending	\$ 84,970	\$ 16,970	\$ 50,736	\$ 33,766



**City of Perry**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Local Street Fund**  
**Year Ended June 30, 2004**

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
<b>Revenues</b>				
Intergovernmental - State	\$ 37,245	\$ 37,245	\$ 37,567	\$ 322
Interest and rents	1,700	1,700	422	(1,278)
Total revenues	38,945	38,945	37,989	(956)
<b>Expenditures</b>				
Public works	75,141	75,141	74,253	(888)
Capital outlay	5,000	5,000	14,485	9,485
Total expenditures	80,141	80,141	88,738	8,597
Excess (deficiency) of revenues over expenditures	(41,196)	(41,196)	(50,749)	(9,553)
<b>Other financing sources</b>				
Operating transfers in	22,000	22,000	22,000	-
Net change in fund balance	(19,196)	(19,196)	(28,749)	(9,553)
Fund balance - beginning	93,765	93,765	93,765	-
Fund balance - ending	<u>\$ 74,569</u>	<u>\$ 74,569</u>	<u>\$ 65,016</u>	<u>\$ (9,553)</u>

**City of Perry**  
**Other Supplemental Information**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2004**

	Special Revenue Funds					Nonmajor Governmental Funds
	Library	Perry Building Authority	D.A.R.E. Fund	Drug Law Enforcement	City Hall Building	
<b>Assets</b>						
Cash and equivalents	\$ <u>19,497</u>	\$ <u>9,541</u>	\$ <u>1,198</u>	\$ <u>4</u>	\$ <u>31,369</u>	\$ <u>61,609</u>
<b>Liabilities and Fund Balance</b>						
<b>Liabilities</b>						
Accounts payable	\$ 1,647	\$ -	\$ -	\$ -	\$ -	\$ 1,647
Accrued wages	<u>2,974</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,974</u>
Total liabilities	4,621	-	-	-	-	4,621
Fund balance	<u>14,876</u>	<u>9,541</u>	<u>1,198</u>	<u>4</u>	<u>31,369</u>	<u>56,988</u>
Total liabilities and fund balance	\$ <u>19,497</u>	\$ <u>9,541</u>	\$ <u>1,198</u>	\$ <u>4</u>	\$ <u>31,369</u>	\$ <u>61,609</u>

**City of Perry**  
**Other Supplemental Information**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2004**

	Special Revenue Funds					Nonmajor Governmental Funds
	Library	Perry Building Authority	D.A.R.E. Fund	Drug Law Enforcement	City Hall Building	
Revenues						
Intergovernmental - State	\$ 6,612	\$ -	\$ -	\$ -	\$ -	\$ 6,612
Interest and rents	1,260	59,534	4	6	4,199	65,003
Fines and forfeitures	881	-	-	-	-	881
Other	25,884	-	2,524	-	-	28,408
Total revenues	34,637	59,534	2,528	6	4,199	100,904
Expenditures						
Public safety	-	-	2,142	1,705	-	3,847
Public works	-	3,012	-	-	-	3,012
Recreation and cultural	91,027	-	-	-	1,693	92,720
Debt service	-	54,800	-	-	-	54,800
Capital outlay	2,111	-	-	-	348	2,459
Total expenditures	93,138	57,812	2,142	1,705	2,041	156,838
Excess (deficiency) of revenues over expenditures	(58,501)	1,722	386	(1,699)	2,158	(55,934)
Other financing sources (uses)						
Operating transfers in	52,000	-	-	-	-	52,000
Net change in fund balance	(6,501)	1,722	386	(1,699)	2,158	(3,934)
Fund balance - beginning	21,377	7,819	812	1,703	29,211	60,922
Fund balance - ending	\$ 14,876	\$ 9,541	\$ 1,198	\$ 4	\$ 31,369	\$ 56,988

**City of Perry**  
**Other Supplemental Information**  
**Comparative Balance Sheet**  
**General Fund**  
**June 30, 2004 and 2003**

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	<u>2004</u>	<u>2003</u>
Assets		
Cash and cash equivalents	\$ 78,941	\$ 171,542
Special assessments receivable	77,291	5,375
Due from other governments	72,361	79,010
Due from other funds	105,170	7,424
Prepaid expenditures	<u>18,975</u>	<u>18,059</u>
Total assets	<u>\$ 352,738</u>	<u>\$ 281,410</u>
Liabilities and Fund Balance		
Liabilities		
Accounts payable	\$ 12,110	\$ 33,638
Accrued wages	20,544	16,505
Deferred revenue	<u>77,291</u>	<u>-</u>
Total liabilities	<u>109,945</u>	<u>50,143</u>
Fund balance	<u>242,793</u>	<u>231,267</u>
Total fund balance	<u>242,793</u>	<u>231,267</u>
Total liabilities and fund balance	<u>\$ 352,738</u>	<u>\$ 281,410</u>

**City of Perry**  
**Other Supplemental Information**  
**Schedule of Revenues and Expenditures and**  
**Changes in Fund Balance Compared to Budget**  
**General Fund**  
**Year Ended June 30, 2004**

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Current tax levy	\$ 607,991	\$ 607,991	\$ 608,296	\$ 305
Special assessments	33,336	33,336	9,554	(23,782)
Licenses and permits	24,200	24,200	25,149	949
Intergovernmental - State	239,000	239,000	222,227	(16,773)
Federal grants	25,777	25,777	27,509	1,732
Charges for services	2,550	2,550	1,988	(562)
Fines and forfeitures	11,000	11,000	13,236	2,236
Interest and rents	125,162	125,162	125,079	(83)
Other revenues and reimbursements	50,090	50,090	71,855	21,765
Total revenues	1,119,106	1,119,106	1,104,893	(14,213)
Expenditures				
Legislative	22,369	30,869	30,688	(181)
General government				
Executive	8,776	8,776	7,033	(1,743)
Elections	3,723	3,723	50	(3,673)
Finance and tax administration	197,237	205,237	217,120	11,883
Clerk	39,654	39,654	33,031	(6,623)
Treasurer	28,630	28,630	25,805	(2,825)
Total general government	278,020	286,020	283,039	(2,981)
Public safety				
Police department	336,164	336,164	383,939	47,775
Fire board	59,320	59,320	64,595	5,275
Building inspection	10,000	10,000	8,883	(1,117)
Planning and zoning	11,837	11,837	11,458	(379)
Total public safety	417,321	417,321	468,875	51,554
Public works				
Department of public works	390,730	211,691	218,304	6,613
Recreation and cultural				
Recreation and parks	14,900	14,900	7,454	(7,446)
Capital outlay	11,100	204,739	182,027	(22,712)
Debt service				
Principal	64,600	64,600	41,096	(23,504)
Interest	30,581	30,581	24,884	(5,697)
Total debt service	95,181	95,181	65,980	(29,201)
Total expenditures	1,229,621	1,260,721	1,256,367	(4,354)
Excess (deficiency) of revenues over expenditures	(110,515)	(141,615)	(151,474)	(9,859)

**City of Perry**  
**Other Supplemental Information**  
**Schedule of Revenues and Expenditures and**  
**Changes in Fund Balance Compared to Budget**  
**General Fund**  
**Year Ended June 30, 2004**  
(Concluded)

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	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other financing sources (uses)				
Loan proceeds	\$ 215,000	\$ 215,000	\$ 215,000	\$ -
Operating transfers out	<u>(52,000)</u>	<u>(52,000)</u>	<u>(52,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>163,000</u>	<u>163,000</u>	<u>163,000</u>	<u>-</u>
Net change in fund balance	52,485	21,385	11,526	(9,859)
Fund balance - beginning	<u>231,267</u>	<u>231,267</u>	<u>231,267</u>	<u>-</u>
Fund balance - ending	<u>\$ 283,752</u>	<u>\$ 252,652</u>	<u>\$ 242,793</u>	<u>\$ (9,859)</u>

**City of Perry**  
**Other Supplemental Information**  
**Combining Balance Sheet**  
**Fiduciary Funds**  
**June 30, 2004**  
**(With Comparative Totals at June 30, 2003)**

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	Agency Funds			
	Tax Collection	Imprest Payroll	Total	
			2004	2003
<b>Assets</b>				
Cash and cash equivalents	\$ 4,907	\$ 4,118	\$ 9,025	\$ 15,757
Due from other funds	<u>12,086</u>	<u>-</u>	<u>12,086</u>	<u>7,276</u>
Total assets	<u><u>16,993</u></u>	<u><u>4,118</u></u>	<u><u>21,111</u></u>	<u><u>23,033</u></u>
<b>Liabilities</b>				
Due to other funds	16,993	124	17,117	19,247
Due to other governmental units	<u>-</u>	<u>3,994</u>	<u>3,994</u>	<u>3,786</u>
Total liabilities	<u><u>\$ 16,993</u></u>	<u><u>\$ 4,118</u></u>	<u><u>\$ 21,111</u></u>	<u><u>\$ 23,033</u></u>

**Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on  
an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

Members of the City Council  
City of Perry, Michigan  
Perry, Michigan

We have audited the financial statements of the City of Perry as of and for the year ended June 30, 2004, and have issued our report thereon dated September 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City of Perry's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted a reportable condition involving the internal control over financial reporting and its operation that we consider to be a material weakness. Please refer to the management letter for a detailed explanation.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Perry's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.



This report is intended solely for the information and use of the City's management, City Council, and the applicable federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Yeo & Yeo, P.C.*

Alma, Michigan  
September 15, 2004



7810 N. Alger Rd.  
Alma, MI 48801  
Phone (989) 463-6108  
Fax (989) 463-8560

September 15, 2004

To the City Council  
City of Perry  
Perry, Michigan

In planning and performing our audit of the financial statements of the City of Perry for the year ended June 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the City of Perry's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable conditions that we believe to be material weaknesses.

The first comment is potentially material to the financial statements. The rest of the comments are suggestions to improve the operating efficiency of the City.

#### BANK RECONCILIATION

At present, the City prepares bank reconciliation's for the purpose of determining available resources in various accounts. The bank reconciliation's for the General, Water, and Sewer Funds were not being compared to, or reconciled with, the City's general ledger when we were doing field work in August. This required a significant amount of extra time and effort. We recommend all bank accounts be reconciled to the general ledger on a monthly basis. We also noted that some of the transfers between funds that were recorded on the books were not actually transferred at the bank. We suggest that all transfers be recorded in the general ledger when they are actually made with the bank.



September 15, 2004

#### FIXED ASSET SCHEDULES

We suggest that the City adopt a capitalization policy to determine which fixed assets should be capitalized and which fixed assets should be expensed. This will eliminate small immaterial items from being capitalized and depreciated. Also, the City should create a fixed asset schedule to record the governmental funds fixed assets.


#### CASH MANAGEMENT

During the audit we inquired about the policies and procedures regarding segregation of duties. We noted that the treasurer receives and opens the bank statements and she is also preparing the bank reconciliations. We recommend that the Mayor or a board member open the bank statements every month to review the cleared check images and any transfers before the treasurer prepares the monthly bank reconciliations.

This report is intended solely for the information and use of the City Council, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

YEO & YEO, P.C.  
CPAs and Business Consultants



By: Thomas E. Coulter, CPA